Local Government Mandate Statement
Kentucky Legislative Research Commission
2019 Extraordinary Session

Part I: Measure Information

Bill Request #: 30

Bill #: HB 1 GA

Document ID #: 82

Bill Subject/Title: AN ACT relating to the Kentucky Employees Retirement System and declaring an emergency

Sponsor: Representative James Tipton

Unit of Government:	x	City	x	County	x	Urban-County
	x	Charter County	x	Consolidated Local	x	Unified Local Government

Office(s) Impacted: local quasi-governmental agencies

Requirement: ____ Mandatory **x** Optional

Effect on Powers & Duties: **x** Modifies Existing **x** Adds New ____ Eliminates Existing

Part II: Bill Provisions and the Estimated Fiscal Impact Relating to Local Government

HB 1 would amend KRS Chapter 61 and related statutes to allow quasi-governmental agencies to voluntarily cease participation in the Kentucky Employees Retirement System (KERS). These quasi-governmental agencies ("the agencies") are mental health/mental retardation boards, local and district health departments, domestic violence shelters, rape crisis centers, child advocacy centers, state-supported universities and community colleges and any other agency eligible to voluntarily cease participating in KERS pursuant to KRS 61.522. HB 1 would provide an extension of the one-year freeze of the contribution rate for quasi-governmental agencies at 49.47% for the fiscal year 2019/2020.

A ceasing agency would be required to pay to KERS the full actuarial cost of ceasing participation, for both the pension and the health insurance funds, in a lump-sum or in installments. Agencies would be able to elect that Tier 1 and 2 employees may continue participation in KERS by paying higher rates.

Costs and Payment

1. Cost of cessation would be the full actuarial cost of the benefits accrued by an agency's current and former employees in the system who remain in the system.
2. Extending the 49.47% contribution rate by a year will result in a 0.7% increase in the actuarially determined contribution rate beginning in FY 2020/2021 and for the next 22 years.
3. Installment payments on or after July 1, 2021 would be increased by 1.5% annually until paid in full or paid for 30 years from cessation date
4. The maximum period for installment payments would be 30 years.
5. If an agency will not pay off the full actuarial costs with interest after 30 years and the agency does not elect that eligible employees continue to participate in KERS after the cessation date, the agency is not liable for more payments after 30 years. In that instance KERS may request additional funding from the General Assembly to fully pay off the balance.
6. If a ceasing agency is receiving general fund appropriations to help pay retirement contributions, that appropriation would continue until the agency's full costs of ceasing participation are paid off.
7. The ceasing agency would be required to provide security for financing the costs of cessation until the costs are paid in full.
8. Section 5 of the bill would authorize an agency to finance the costs by issuing bonds.
9. Payments would not be subject to increase or adjustment once they begin.

Kentucky League of Cities believes HB 1 should have no negative impact on its members, as they participate in CERS.

While HB 1 should have no direct impact on local governments, the Actuarial Analysis (AA) of HB 1 notes that legislation that provides a cessation window with alternative provisions may entice other participating employers to seek enactment of similar legislation for their benefit. The AA believes that enactment of similar legislation could result in continual increased cost and risk for remaining KERS participants.

The Kentucky Association of Counties commented that county governments have a statutory obligation regarding funding of local health departments. HB 1's terms for allowing local health departments to voluntarily cease participation in KERS with the intention of lowering their pension costs could result in a positive fiscal impact on counties that fund a local health department or who participate in a district health department.

Part III: Differences to Local Government Mandate Statement from Prior Versions

Part II, above, pertains to HB 1 as introduced. There is no prior introduced version to compare to for Part III.

Data Source(s): LRC staff; Kentucky League of Cities; Kentucky Association of Counties

Preparer: Mary Stephens **Reviewer:** KHC **Date:** 7/22/19